

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 PA-02 PRS-01 /096 W
-----034483 292145Z /66

R 292056Z DEC 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 5803
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

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DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. PRODUCTION CONTINUED WEAK INTO FOURTH QUARTER AS REAL DOMESTIC PRODUCT (RDP) ROSE ONLY 0.1 PERCENT FROM SEPTEMBER TO OCTOBER. IN ITS YEAR END STATEMENT, CANADIAN MANUFACTURERS' ASSOCIATION (CMA) UNDERLINED GENERALLY SORRY STATE OF MANUFACTURING SECTOR; AUTO INDUSTRY, HOWEVER, APPEARS REALTIVELY HEALTHY. TRADE SURPLUS DECLINED TO CDOLS 243 MILLION IN OCTOBER FROM CDOLS 524 MILLION (REVISED) SURPLUS RECORDED IN SEPTEMBER AS VALUE OF EXPORTS AND OF IMPORTS DECLINED. CAPITAL MARKETS WERE CALM IN WEEK ENDING DECEMBER 23 WITH SHORT TERM NOTES DECLINING AND LONG TERM RATES STEADY. EXCHANGE MARKETS EQUALLY PLACID AS
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CANADIAN DOLLAR DECLINED AGAINST U.S. DOLLAR DURING WEEK, BUT ROSE ON AVERAGE FROM PREVIOUS WEEK. END SUMMARY.

2. DOMESTIC DEVELOPMENTS. PRODUCTION ACTIVITY CONTINUES WEAK. INDEX OF REAL DOMESTIC PRODUCTION ROSE TO 128.3 IN OCTOBER FROM SEPTEMBER LEVEL OF 128.2, TO REGISTER A MONTHLY INCREASE OF ONLY 0.1 PERCENT AND A TWELVE MONTH

INCREASE OF 2.6 PERCENT. MANUFACTURING OUTPUT INCREASED BY 0.2 PERCENT WHILE DECLINES WERE REGISTERED IN FORESTRY (MINUS 5.3 PERCENT), MINES, QUARRIES AND OIL WELLS (MINUS 1.8 PERCENT) AND RETAIL MERCHANDISING (MINUS 0.3 PERCENT). DECLINE IN RETAIL MERCHANDISING APPEARS SOMEWHAT STRANGE IN LIGHT OF RECENT BUOYANCY IN RETAIL SALES. OUTPUT OF GOODS PROCESSING INDUSTRIES INCREASED BY 0.2 PERCENT IN OCTOBER; SERVICES OUTPUT WAS UP BY 0.1 PERCENT. PRODUCTION OF DURABLE MANUFACTURES DECLINED BY 0.6 PERCENT DUE TO REDUCED ACTIVITY IN METAL MINING INDUSTRIES.

3. --- IN YEAR END STATEMENT, HUGH STEVENS, PRESIDENT OF CANADIAN MANUFACTURERS' ASSOCIATION (CMA), POINTED TO SORRY STATE OF CANADIAN MANUFACTURING SECTOR. CMA ESTIMATES THAT EMPLOYMENT IN MANUFACTURING WILL FALL BY 50,000 IN 1977 AFTER RISE OF 20,000 LAST YEAR. IN DIAGNOSING ILLS OF MANUFACTURING SECTOR, CMA NOTES PROGRESSIVE DECLINE IN PROFITS AS PERCENTAGE OF SALES WENT FROM 5.3 PERCENT IN 1974 TO 3.7 PERCENT ESTIMATED FOR 1977. ON PLUS SIDE, REPORT INDICATED THAT INCREASES IN UNIT LABOR COSTS HAVE MODERATED AND THAT TIME LOST DUE TO STRIKES HAS DECLINED. STEVENS WARNED, HOWEVER, THAT DOWNWARD ADJUSTMENT OF COST INCREASES MUST CONTINUE AS CANADA WILL FACE TOUGHER TRADING ENVIRONMENT IN AFTERMATH OF MTN.

4. AMIDST A SAGGING MANUFACTURING SECTOR, THE AUTO INDUS-
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TRY APPEARS RELATIVELY HEALTHY. ROY BENNET, PRESIDENT OF FORD CANADA, INDICATED THAT FORD'S AUTO AND TRUCK PRODUCTION COULD TOTAL 587,000 UNITS IN 1977, A 10 PERCENT INCREASE OVER LAST YEAR. AS A RESULT, EMPLOYMENT AT FORD EXPECTED TO RISE BY 9 PERCENT TO 20,000 THIS YEAR. BENNET NOTED THAT DECISION ON FUTURE INVESTMENT IN CANADA WOULD BE MADE ON BASIS OF PREVAILING ECONOMIC CONDITIONS.

5. GENERAL MOTORS HAS RECENTLY DECIDED TO DOUBLE CAPACITY OF ITS TRANSMISSION PLANT IN WINDSOR, ONTARIO. COMPANY SPOKESMAN SAID THAT EXPANSION WOULD MEAN 1,500 MORE JOBS AND CDOLS 130 MILLION IMPROVEMENT IN CANADA'S AUTO TRADE DEFICIT WITH U.S.

6. PRICES. ANTI-INFLATION BOARD (AIB) RETAIL FOOD PRICE INDEX ROSE 0.1 PERCENT BETWEEN MID-NOVEMBER AND MID-DECEMBER. FALL IN PRICES OF FRESH FRUIT HELPED TO MODERATE RISE IN OVERALL INDEX. TWELVE MONTH INCREASE IN AIB INDEX WAS 11.7 PERCENT IN DECEMBER COMPARED TO 12.7 PERCENT IN NOVEMBER.

7. GENERAL WHOLESALE PRICE INDEX ROSE 0.3 PERCENT BETWEEN

SEPTEMBER AND OCTOBER. INCREASE IN TWELVE MONTHS TO OCTOBER WAS 10.8 PERCENT, COMPARED WITH VIRTUALLY IDENTICAL RISE (10.7 PERCENT) IN TWELVE MONTHS TO SEPTEMBER. PRICES OF WOOD PRODUCTS, VEGETABLE PRODUCTS AND NON-FERROUS METALS SHOWED TWELVE MONTH PRICE INCREASES OF 17.2 PERCENT, 14.4 PERCENT AND 11.2 PERCENT RESPECTIVELY.

8. FEDERAL GOVERNMENT HAS INTRODUCED LEGISLATION IN PARLIAMENT WHICH WOULD GIVE GOC AUTHORITY TO IMPOSE TAX ON CRUDE OIL OF UP TO CDOLS 1.00 PER BARREL TO HELP SUBSIDIZE PRODUCTION OF SYNTHETIC OIL FROM ALBERTA TAR SANDS. INFLA-

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TIONARY IMPACT OF LEVY IN 1978 DEPENDS ON TIMING OF IMPLEMENTATION AND ON DEGREE TO WHICH GOC USES ITS MAXIMUM AUTHORITY (SEE SEPTTEL).

9. IN RECENT INTERVIEW, JOE MORRIS, PRESIDENT OF CANADIAN LABOR CONGRESS, EMPHASIZED CONTINUING FALL IN REAL WAGES, BUT ADDED THAT LABOR WAS "REALISTIC" AND WOULD NOT PUSH FOR EXCESSIVE WAGE INCREASES WHEN CONTROL PROGRAM ENDS IN APRIL, 1978. FINANCE MINISTER CHRETIEN, IN TELEVISION INTERVIEW, REITERATED VIEW THAT INFLATION RATE WOULD COME DOWN NEXT YEAR AND SAID THAT GOC HAD NO CONTINGENCY PLANS TO COUNTER POSSIBLE WAGE/PRICE ACCELERATION WHEN CONTROLS

TERMINATE.

10. EXTERNAL DEVELOPMENTS. SEASONALLY ADJUSTED TRADE SURPLUS (BALANCE OF PAYMENTS BASIS) FELL TO CDOLS 243 MILLION IN NOVEMBER FOLLOWING SEPTEMBER SURPLUS (REVISED) OF CDOLS UNCLASSIFIED

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524 MILLION. EXPORTS TOTALLED CDOLS 3.42 BILLION, DOWN 16.5 PERCENT FROM SEPTEMBER, WHILE IMPORTS TOTALLED CDOLS 3.18 BILLION, A DROP OF 11 PERCENT FROM SEPTEMBER. AT CDOLS 11.1 BILLION, SEASONALLY ADJUSTED EXPORTS FOR THREE MONTHS ENDING NOVEMBER WERE ABOUT 1 PERCENT BELOW TOTAL FOR PREVIOUS THREE MONTH PERIOD. OVER SAME TWO PERIODS, IMPORT VALUE DECLINED BY 2 PERCENT TO CDOLS 10.3 BILLION.

11. ON SEASONALLY ADJUSTED CUSTOMS BASIS, EXPORTS TO U.S. FELL 6.8 PERCENT TO CDOLS 2.5 BILLION WHILE EXPORTS TO OTHER COUNTRIES DECLINED BY 30.8 PERCENT. IMPORTS FROM U.S. FELL BY 9.6 PERCENT TO CDOLS 2.3 BILLION IN NOVEMBER WITH DECLINE LEAD BY SHARP DROP IN PASSENGER CAR IMPORTS. IMPORTS OF AUTO PARTS ALSO DECLINED. IMPORTS FROM OTHER COUNTRIES DECLINED BY 13 PERCENT.

12. CAPITAL MARKETS. CAPITAL MARKETS CALM IN WEEK ENDING DECEMBER 23 REFLECTING ONSET OF HOLIDAY SEASON. SHORT TERM RATES DECLINED WITH INTEREST RATE ON 90 DAY TREASURY BILLS DOWN TO 7.14 PERCENT FROM 7.18 PERCENT PREVIOUS WEEK. PRICES OF SOME RECENT DOMESTIC BOND ISSUES HAVE BEEN CUT IN LINE WITH VIEW SHARED BY MAJORITY OF INSTITUTIONAL INVESTORS THAT INTEREST RATES WILL RISE IN 1978.

13. FOREIGN BORROWING. BULK OF U.S. DOLS 250 MILLION PROVINCE OF ONTARIO BOND ISSUE IN NEW YORK HAS NOW BEEN SOLD. PRICE WAS LOWERED TO U.S. DOLS 99 FROM U.S. DOLS 100 RAISING EFFECTIVE YIELD TO 8.85 PERCENT FROM 8.75 PERCENT. NEXT SIGNIFICANT ISSUE IN NEW YORK MARKET WILL BE U.S. DOLS 200 MILLION ISSUE OF 30 YEAR DEBENTURES BY BELL CANADA. PRICING OF OFFERING SCHEDULED FOR JANUARY 5.

14. FOREIGN EXCHANGE MARKET. FOREIGN EXCHANGE MARKET FAIRLY UNCLASSIFIED

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QUIET IN WEEK ENDING DECEMBER 23 AS CANADIAN DOLLAR ROSE SLIGHTLY ON AVERAGE AGAINST U.S. DOLLAR. AVERAGE EXCHANGE RATE FOR WEEK ENDING DECEMBER 23 WAS .9147, COMPARED WITH .9116 OF PREVIOUS WEEK. DOLLAR DECLINED IN COURSE OF WEEK

ON RUMORS THAT BANK OF CANADA WAS CONSIDERING CUT IN DISCOUNT RATE AND ON NARROWING OF CANADIAN/U.S. SHORT TERM INTEREST RATE DIFFERENTIAL. MOST ANALYSTS SEE CUT IN BANK RATE AS UNLIKELY, GIVEN THEIR EXPECTATION THAT U.S. SHORT TERM RATES WILL RISE NEXT YEAR.

15. CANADIAN PRESS NOTES POPULARITY OF CANADIAN DOLLAR FUTURES CONTRACTS ON CHICAGO INTERNATIONAL MONEY MARKET. PARTICIPANTS IN MONEY MARKET HOLD MIXED VIEWS ON SHORT RUN FUTURE OF CANADIAN DOLLAR EXCHANGE RATE. SOME CURRENCY BROKERS JUDGE THAT U.S. 92.5 CENTS WILL BE TOP CANADIAN DOLLAR PRICE AND RECOMMEND THAT DOLLAR BE SOLD SHORT WERE IT TO REACH THIS LEVEL. OTHER DEALERS FEEL DOLLAR COULD GO AS HIGH AS 94 U.S. CENTS. ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT
Control Number: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t1977128/aaaaafx.d.tel
Line Count: 238
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Litigation History:
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Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 315406
Secure: OPEN
Status: NATIVE
Subject: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/a893b708-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009